

Message Text

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ACTION EUR-12

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TO SECSTATE WASHDC 3796

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AMEMBASSY LUXEMBOURG

UNCLAS BRUSSELS 3902

E.O. 11652: N/A

TAGS: EGEN, BE

SUBJECT: PRICE/WAGE FREEZE FOR BELGIUM ANNOUNCED

REF: BRUSSELS 3697

1. IN A SURPRISINGLY SWIFT MOVE SHORTLY AFTER HIS RETURN FROM PEKING, ON APRIL 30 BELGIAN PRIME MINISTER TINDEMANS ANNOUNCED A SERIES OF ECONOMIC MEASURES, INCLUDING A PRICE/WAGE FREEZE, DESIGNED TO DAMPEN BELGIAN INFLATION (NOW RUNNING ALMOST 15 PERCENT) AND TO KEEP UNEMPLOYMENT LEVELS WITHIN ACCEPTABLE LIMITS (NOW ABOUT 6 PERCENT).

2. THE TEN POINT BELGIAN GOVERNMENT PROGRAM CONSISTS OF THE FOLLOWING ITEMS:

(A) PRICES AND WAGES WILL BE FROZEN FOR TWO MONTHS FROM THE DATE ON WHICH THE BELGIAN PRICE CONTROL COMMISSION GIVES ITS ADVICE TO THE GOVERNMENT ON HOW THE FREEZE SHOULD TAKE EFFECT (OBSERVERS EXPECT THE FREEZE TO COME LEGALLY INTO EFFECT ON MAY 5 OR 6);

(B) FRINGE BENEFIT EXPENSES FOR EMPLOYERS WHO

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INCREASE THEIR NUMBER OF WORKERS SIGNIFICANTLY WILL

BE REDUCED;

(C) LAST YEAR'S CREDIT RESTRICTIONS WILL BE

LOOSENED;

(D) MORTGAGE MONEY WILL BE MADE MORE READILY AVAILABLE;

(E) INCREASED GOVERNMENT FUNDS FOR CONSTRUCTION WILL BE
RELEASED;

(F) A WINDFALL PROFITS TAX ON CERTAIN RAW MATERIALS
WILL BE IMPOSED;

(G) PARLIAMENT'S APPROVAL WILL BE SOUGHT FOR A NEW
TAX PROVISION WHICH WILL ENCOURAGE INVESTMENT DURING
THE SECOND HALF OF 1975;

(H) CERTAIN ADDITIONAL BUSINESS EXPENSES WILL NOW
BECOME TAX DEDUCTIBLE;

(I) CERTAIN INTEREST PAYMENTS FOR INVESTMENTS MADE
IN THE NEXT TWO YEARS WILL BECOME TAX DEDUCTIBLE AND;

(J) FUNDS AVAILABLE FOR THE FINANCING OF EXPORTS
WILL BE INCREASED.

3. ALTHOUGH THE GOVERNMENT HAS YET TO WORK OUT OR
ANNOUNCE THE REAL DETAILS OF THE TEN POINTS (WHICH SHOW
ALL THE SIGNS OF A HASILY PUT TOGETHER PACKAGE TIMES
FOR THE EVE OF MAY DAY), INITIAL CALCULATIONS SUGGEST
THAT THE PROGRAM WILL INCREASE THE 1975 BUDGET DEFICIT
BY BETWEEN FOUR AND FIVE BILLION FRANCS.

4. ONE PROPOSAL WHICH WAS CONSIDERED AS A PART OF THE
PACKAGE, AND REJECTED BY THE GOVERNMENT WE ARE TOLE,
WAS A REDUCTION FROM THE CURRENT 5 PERCENT TO 2.5
PERCENT IN THE VALUE-ADDED-TAX (TVA) LIABLE ON
INVESTMENT GOODS (PLAND AND EQUIPMENT). THE GOVERNMENT'S
DECISION NOT TO REDUCE THIS TAX (AS HAD BEEN PROMISED
IN 1971 AND IN 1973) IS OF GREAT INTEREST TO MANY
IMPORTANT AMERICAN INVESTORS IN BELGIUM
(EXXON, HERCULES POWDER, ETC.). THEIR INVESTMENT PLANS,
DRAWN UP A FEW YEARS AGO, ARE BEING UNFAIRLY PENALIZED
BY THE BELGIAN GOVERNMENT, ACCORDING TO CERTAIN AMERICAN
BUSINESSMEN, IN THAT THE BELGIANS ARE KEEPING ON A TAX
WHICH HAD BEEN PUBLICLY SCHEDULED TO BE REDUCED OR
ABOLISHED BY 1975. IN REPLY, THE BELGIAN GOVERNMENT
EXPRESSES REGRET BUT ARGUES THAT THE REVENUE FROM THIS
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TAX (IMPOSED ON BELGIAN AND FOREIGN INVESTORS ALIKE)
IS AN ESSENTIAL SOURCE OF REVENUE. FIRESTONE

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